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SUBJECT: ECONOMIC DEVELOPMENT AND IPR ENFORCEMENT IN VIETNAM'S CHINA  
BORDER REGION

REF: (A) 07 Hanoi 1817; (B) 07 Hanoi 1838; (C) 07 Hanoi 2064

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¶1. (SBU) Summary: Vietnam's mountainous northeast border region with China has tied its economic development plans to Vietnam's growing international trade. Provincial governments are making the most of their geographic advantages and reaping growth rates that exceed the 8.5 percent national average. Lang Son province has capitalized on its 250 km border with China to encourage trade-related services, resulting in 11.6 percent GDP growth in the province in 2007. Lang Son officials are also focused on reducing the 29 percent poverty rate through increased education and training. Along with its economic opportunities, the long border with China presents challenges for local officials. Lang Son is trying to confront rampant counterfeit goods, most of which enter from China. The capacity constraints in overcoming intellectual property rights violations this significant challenge were evident in visits to several border gates. Provincial authorities have taken some steps to protect IPR, but their ultimate success rests in translating these efforts into concrete enforcement results. End summary.

¶2. (U) This is the latest in a series of reports (Reftels) on provincial travel by Embassy and Consulate General personnel to understand better the level of economic development and competitiveness in provinces throughout Vietnam. On January 16, members of the Embassy economic section traveled to the mountainous northeast province of Lang Son to discuss with local government and national border officials the challenges and opportunities facing the region, including combating intellectual property rights (IPR) violations along the border with China.

BANKING ON TRADE FOR THE FUTURE  
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¶3. (U) The northeastern border province of Lang Son is an important connection between southern China and Vietnam's northern economic hubs of Hanoi and Haiphong. The province has a 250 km long border with China, presenting provincial officials with both economic opportunities and significant challenges. There are two large international border gates (open to all international commerce and nationals) and two national border gates (limited to only Vietnamese and Chinese nationals and their goods) in Lang Son. A well-developed series of national highways connects the province with other urban centers in the north as well as the South China Sea. A railway with connections to Hanoi and Beijing also runs through the center of the province.

¶4. (U) Director of the Lang Son Trade and Tourism Department, Mr. Ha Hong, explained that the province's economy is shifting to more trade-related services as more imports and exports pass through this

gateway to China and Vietnam's market continues to develop. In 2007, Lang Son had a "solid" 11.6 percent GDP growth rate, up more than 1.5 percent from 2006. Services account for 39 percent of the province's GDP, matching the 39 percent contribution from agriculture and far exceeding the 22 percent share of GDP from industry. Hong explained that Lang Son officials aim for services to comprise 45 percent of the province's GDP by 2010. They intend to reach this goal by capitalizing on the province's location to expand trade and cooperation with China, Japan and Korea, and other ASEAN members. Drawing additional investment in infrastructure (roads, railway and expanding the border gates) will be a focus of the province, Hong said. Lang Son has developed a 17 square kilometer "economic cooperation area" on the Chinese border, where it hopes to attract local and foreign investment to conduct export processing services. A transit warehouse to facilitate trade between ASEAN countries and China is already planned for this area, Hong noted.

#### POVERTY REDUCTION A TOP PRIORITY

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15. (U) Nearly 80 percent of the province's 746,000 inhabitants are ethnic minorities. Director Hong said that the province's per capita annual income in 2007 was \$600, compared with the national average of approximately \$870. Poverty rates are high and 29 percent of Lang Son's population earns less than \$200/year. Provincial authorities want to reduce poverty levels to 10 percent and eliminate the gap between the average provincial and national per capita income in the immediate future. Bemoaning the "limited" national budget for poverty reduction, Lang Son officials have directly approached businesses and foreign donors for assistance. Hong noted that a number of NGOs from Germany and Holland are working in the province, and that Vietnamese-Americans have returned to the province to provide private assistance, which he estimated at several hundred million Vietnamese Dong (100 million VND = \$6,250) in 2007.

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16. (U) The province's poverty reduction strategy is focused on improving education and training opportunities. Currently, nearly 100 percent of children attend primary school, and the rate for those attending secondary schools is "catching up" to that level, provincial officials explained. Lang Son has a teaching college and is expanding training in the fields of health, economics and practical business applications. They are actively seeking additional donors and partners to improve education opportunities for local citizens.

#### LOOKING TO IMPROVE ITS LOW PCI SCORE

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17. (U) Attracting foreign investment is the lynchpin of Lang Son's future growth strategies. The Lang Son People's Committee has adopted several measures to bring more money into the province, including printing brand new bilingual marketing materials touting the province's potential and opening separate foreign direct investment (FDI) and trade promotion centers. Trade and Tourism Director Hong recognized, however, that Lang Son must work to improve the low score it received in the 2007 Provincial Competitiveness Index (it was ranked 59 out of 64 provinces). Several investors' recent concerns were resolved very quickly, Hong added, and provincial officials are under mandate to continue measures to improve and streamline administrative procedures.

#### INTELLECTUAL PROPERTY RIGHTS: CONFRONTING THE CHALLENGE

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18. (U) Lang Son officials face a significant challenge in combating rampant IPR violations, manifest in the form of counterfeit goods entering the province from China. While the concept of IPR is relatively new to Vietnam, Lang Son officials understand Vietnam's responsibility to protect intellectual property, including under its WTO and BTA commitments, Director Hong said. He described Lang Son's IPR action plan, which has resulted in "good coordination" between provincial trade, science and technology, customs and police

authorities. Hong said that Lang Son is the first (and to his knowledge, the only) province to create its own IPR task force, with the Vice Chairman of the People's Committee as the Chair. The task force is charged with conducting inspections in the local markets and at businesses in the province. The success of Lang Son's IPR task force in improving coordination on IPR has led other provinces to come to learn from Lang Son's experiences, Hong added.

¶9. (U) Provincial authorities investigated 95 IPR infringement cases in 2007, resulting in the issuance of 39 administrative remedies. All of the infringing goods were destroyed, according to Director Hong. Motorbikes and spare parts, small electronics, motorbike helmets, mobile phones and cosmetics were the most common counterfeit products seized by local and national border authorities. Hong hastened to add that almost all of the infringing goods were imported from China, and most "did not involve U.S. products." Lang Son authorities also handled more than 6,000 anti-smuggling cases in 2007, many of which were "small scale" incidents of individuals smuggling illicit goods through more remote border areas.

#### POLICING THE BORDER: CAPACITY CONSTRAINTS

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¶10. (SBU) In visits to the Huu Nghi (Friendship) and Tan Thanh border gates with China, Lang Son's capacity constraints in combating counterfeit trade were evident. With hundreds, and sometimes thousands, of trucks entering Vietnam through Lang Son's gates every month, in addition to the more than 25,000 people per month crossing the border on foot and heavy rail traffic, customs officials we observed had insufficient time to inspect effectively many of the goods coming across the border. While a Border Army official at the busy Huu Nghi Border Gate insisted that no counterfeit products were crossing at his station, a Tan Thanh border gate management official offered the more realistic assessment that fake goods, particularly electronic products, were getting through the border gate unimpeded. Both of them claimed, however, that the majority of counterfeit products were entering Vietnam at more remote and unmanned border crossings. The Tan Thanh official highlighted the need for more training on identifying IPR violations for both customs and market management board officials (responsible for monitoring goods for sale in the many marketplaces near the border).

¶11. (SBU) A tour of several local markets within 200 meters of the Tan Thanh border gate further underscored that many counterfeit electronics and other goods were making their way into Lang Son. Imitation Apple iPods (priced under \$20), digital cameras, mobile phones (including a line of "Sunny Ericsson" (sic) handhelds),

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unlicensed DVDs and music discs (most with Chinese writing), luxury handbags and high end garments (including Nike and other American brands) were ubiquitous. When asked about efforts to remove these counterfeit products from the marketplace, a border official claimed that they had difficulty telling legitimate products from fake ones, claiming also that they needed the legitimate products as a basis of comparison. (Note: It was unclear whether provincial officials had requested legitimate samples from the rights holders.)

#### COMMENT

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¶12. (SBU) While its long border with China is a great advantage for Lang Son, local officials must address the weaknesses identified by the province's low PCI score to realize fully its potential as a gateway between the region's two fastest growing economies. Lang Son's development of an IPR action plan and task force to combat the omnipresent IPR violations in the province are steps in the right direction. The real measure of success, however, will be the ability of provincial authorities to translate their efforts into concrete enforcement results. Training and capacity building can help. For example, one U.S. company has had success with its efforts to teach border officials how to identify bogus soaps and suds. Direct engagement by more rights holders with enforcement authorities can be effective in clamping down on counterfeit trade.

